THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Over the long-term, the U.S. stock market indices reflect the profitability of doing business in the United States, and the traders that create the values in those indices are driven by a need to estimate that profitability (earnings) over the next couple of years. Unsurprisingly, the S&P 500 Stock Index (SPX) declined nearly one percent this week to 5954.50, descending below the psychologically important 6000 level. It remains up 1.24% at the two-month point in 2025, 17.45% higher than a year ago, and 36% higher than three years ago. The CRSP U.S. Mid-Cap Value Index rose 0.62% to 2862.1 for the week and is up 2.32% in 2025 and 12.21% from last year.

The yield on the benchmark 10-year T-note fell almost 3% this week to 4.29%. The one-month T-bill held at an annualized yield of 4.38% while the 20-year bond declined to 4.59%. The price of West Texas Intermediate crude oil (WTI) moved almost not at all but is about 11% lower than a year ago at $70.09.

The Economy

We don't usually pay much attention to consumer confidence surveys because they are commonly contradicted by consumer spending behavior. The exception is when reliable indicators of consumer spending or other concrete data confirm consumer confidence changes. The February Conference Board U.S. Consumer Confidence Index® dropped by 7.0 points in February, the most significant monthly decline since August 2021. The Expectations Index fell 9.3 points to 72.9, the third consecutive monthly decline. Historically, when the Expectations Index falls below 80, a recession is in the works. Consumers reported they expect inflation to rise to 6%, but because they also expected joblessness to rise, they reduced spending and increased savings.

The February consumer confidence report was followed three days later by a report from the BEA at the Commerce Department. Personal income (DPI) increased by 0.9% in January, and personal consumption expenditures (PCE) decreased by $52.7 billion in January. Consumers plowed an unusually high $1.01 trillion into savings, 4.6% of their DPI. While PCE inflation rose only 2.6% from one year ago, prices rose 0.3% in January, a 3.7% annualized rate. That confirmed last week's CPI rise of 0.5% (a 6.1% annualized rate) in January after rising 3.3% over the previous year. A pattern appeared, so we turned to another indicator to check for confirmation. The Dallas Fed reported that Texas manufacturing declined 8.3% in February after rising robustly in 2024. Respondents' comments, business owners, and consumers appear to recognize the potential effects of substantial tariffs on imported goods accompanied by large-scale government employment reductions.

The Census Bureau (CB) estimates that about half the value of the goods we buy in the United States consists of imports. According to Trading Economics, we import manufactured goods worth $210 billion each month, almost all of which have no alternative domestic source. The CB also estimates that the average net margin (profit) for imported goods in the U.S. is around 10%. Thus, for every $100 of imported item value in a product sold by a domestic retailer in the United States, about $10 is profit and included in the U.S. GDP. Thus, if a 25% tariff is added to imported items, the cost to the chain of manufacturers, distributors, wholesalers, and retailers would increase by $12.50. Of course, the exporter might lower the price, reducing its profits; however, because the current

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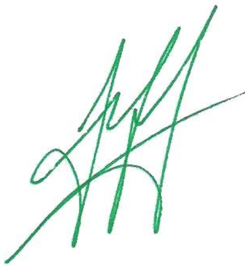
administration has stated it will impose hefty foreign vessel fees at U.S. ports, those fees may offset any export price reduction.

That leaves us with two possible outcomes in our thought experiment, which we believe will be blended into the final result, presuming the tariffs are imposed. If the cost to the manufacturing and supply chain rises by half the tariff, 12.5%, the consumer will need to pay a higher price, or the seller will lose money on every sale. If we split the cost of tariffs equally between the commercial and consumer sides of the equation, costs will rise 6.25%, and commercial earnings will fall by 62.5% on manufactured goods (10% profit minus 6.25%). Of course, it is not that simple, as rising prices tend to create lower consumption, and historically, non-imported goods tend to increase when tariffs are placed on imports. However, that overly simplistic equation results in over 6% inflation and an over 50% decline in corporate manufacturing profits. The bottom line might be an additional 2% or 3% inflation, raising the CPI to 7% or more, and a substantial decrease in corporate earnings. Corporate earnings fuel stock prices, so I am sure you understand. And... add in another factor. If inflation rose to 6%, the Fed would be forced to raise rates, cutting further into corporate profits. As the headline says, fasten your seatbelts. None of this is inevitable, but we suspect that things may get a little bumpy soon.

The good news is that this is happening, as our economy is moving forward at near full capacity and appears to be very resilient.

Until next week, be assured that we are alert and have plans for all the contingencies we can imagine. We are here for you and welcome your thoughts and comments.

Your obedient servants,



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